

July 15, 2002

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

MOTION TO SUPPORT AB 2747 (WESSON) - WHICH WOULD PROVIDE A 15 PERCENT CREDIT FOR WAGES PAID FOR CERTAIN MOVIE AND TELEVISION PRODUCTIONS (ITEM NO. 51-A, AGENDA OF JULY 16, 2002)

Item No. 51-A on the July 16, 2002 Agenda is a motion by Supervisor Antonovich to support AB 2747 (Wesson) and to send a five-signature letter requesting their support to the members of the California Senate.

AB 2747 is a response to the recent increase in "runaway production" of movie and TV production, particularly to Canada. It would provide for tax credits to encourage such production to occur in California. As amended, the bill would provide a 15 percent credit for wages paid in the production of a "qualified motion picture" for which at least 50 percent of the qualified wages are paid for services performed in California. Subsidiary activities such as marketing and accounting would not be eligible for the credit. The credit would only apply to movies involving total production costs of at least \$20 million and would only apply to the first \$25,000 of wages paid per individual. A production company unable to use the credit due to lack of taxable income would be permitted to assign the credit to other companies owned by the controlling corporation and could carry forward any excess credit for up to seven years. Alternatively, in lieu of the income tax credit, a taxpayer who is also a retailer could claim a comparable credit against the sales tax.

The credit would be for tax years starting from July 2004 through December 2009, though it would include wages paid during the first six months of 2004. The Franchise Tax Board estimates a General Fund revenue loss of \$25 million in 2004-05, increasing to \$175 million in 2005-06, \$110 million in 2006-07, and \$115 million in 2007-08 and successive years, for

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a total of approximately \$650 million for the entire period. The Department of Finance revenue model estimates that the stimulus effect of this type of credit would reduce the revenue loss by about 20 percent.

Supporters of the bill point to the decline in local movie and TV productions and the resulting loss of jobs as a result of "runaway productions." Among the reasons cited with respect to Canada is a 25 to 50 percent wage differential, currency exchange rates which make it less expensive to produce in Canada, and tax incentives offered by the federal and provincial governments. The result is a 25 percent production cost advantage, on average, for U.S. productions made in Canada.

Opponents of the bill maintain that the bill would cost taxpayers a lot of money without producing the intended effects. Because the credit is limited in scope and its effect is further diminished by the interaction of federal and state taxes, the net effect would amount to no more than 5 percent of the total production costs as compared to the 25 percent cost advantage. Moreover, since all California productions which meet the qualifications of the bill could claim the credit, its benefits would largely flow to companies who produce their films here without the tax incentive. Finally, they cite concerns about the precedent of creating an assignable, refundable tax credit and question the administrative feasibility of allowing for the option of an income or sales tax credit.

Supporters include numerous unions and associations related to the movie, hotel and restaurant industries, NBC and the City of Ridgecrest. Opponents include the California Tax Reform Association and the California Budget Project.

While AB 2747 is similar in intent to AB 484 (Chapter 699 of 2000), which the Board supported, the method and magnitude by which California-made films would be subsidized under AB 2747 is very different and unprecedented. AB 484 appropriated \$15 million a year for three years to reimburse up to \$300,000 per film for the costs billed by public agencies related to the production of a film. **Therefore, a position on this bill is a matter for Board determination.**

AB 2747 passed the Assembly on May 29, 2002 on a 75 to 1 vote. It is awaiting a hearing in the Senate Revenue and Taxation Committee.

DEJ:GK
ML:JR:md

c: Executive Officer, Board of Supervisors
County Counsel
Legislative Strategist